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Proposed Attorneys for Official Committee of Unsecured Creditors

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF OREGON

In re

Sunshine Dairy Foods Management, LLC;
and Karamanos Holdings, Inc.,

Joint Debtors

Case No. 18-31644-pcm11 (Lead Case)

Case No. 18-31646-pcm11

**LIMITED OBJECTION TO JOINT FIRST
AMENDED MOTION FOR FINAL ORDER
AUTHORIZING USE OF CASH
COLLATERAL OF DEBTORS-IN-
POSSESSION AND GRANTING
ADEQUATE PROTECTION**

The Unsecured Creditors Committee (the “**Committee**”) hereby submits the following limited objection to the Joint First Amended Motion for Final Order Authorizing Use of Cash Collateral of Debtors-in-Possession and Granting Adequate Protection (Dkt. No. 148) (the “**Motion**”), and in support thereof states as follows:

The Committee does not object *per se* to the Debtors’ request to use cash collateral. However, the Committee is concerned about the lack of meaningful detail and the amounts of some of the line items in the Debtors’ budget (the “**Budget**”).¹ In addition, the Budget makes no distinction between costs relating to Sunshine’s “West” facility (which will be winding down operations) and “East” facility (which is still operating), which makes it difficult to evaluate the necessity of the requested use of cash.

¹ The Committee reviewed an updated version of the Budget to be filed with the Court.

The Committee has reviewed the Response filed by First Business Capital Corporation (“**FBCC**”) (Dkt. No. 164). The Committee shares the concerns expressed by FBCC and supports its proposals, and will not repeat them here. The Committee is also concerned about the following:

1. Despite the presumed reduction in business activity after the anticipated Alpenrose transaction, the Budget provides increased² spending for “Other Ingredients” (to an amount of \$85,000 per week) and for “Other – ingredients” (to an amount of \$25,000 per week), without indicating what those “ingredients” are or why expenses for presumably perishable goods should be increasing as a significant portion of the Sunshine operations wind down. The Committee has been informed that the actual expenses in this category may be lower than projected; however, it objects to payment of these amounts unless and until the Debtors demonstrate their necessity.

2. The Budget similarly reflects no decrease in payroll or benefits payments between the weeks of 6/15 and 6/29, again despite the presumed reduction of employee headcount at least in the number of those employees expected to be hired by Alpenrose. It also provides for much larger than usual payroll and payroll tax obligations the week of 6/22, in the amounts of \$236,774 and \$90,286, respectively, and a \$64,000 pension contribution the week of 6/15. The Committee believes that some of these amounts may constitute severance pay and/or additional amounts that may be non-priority unsecured claims. The Committee objects to payment of these amounts unless and until the Debtors demonstrate that such payments are both necessary and also constitute administrative expenses.

3. Other line items are inordinately large and should be explained and justified before approval. These include water payments in the amount of \$131,476 during the week of 6/1 (to the extent not already paid) and \$38,000 during the week of 6/15, and insurance payments in the amount of \$73,950 in the week of 6/1 (to the extent not already paid) and \$31,000 and \$25,000

² Increased over earlier weeks. *See* version of Budget attached to Motion.

(two entries) in the week of 6/29.³ The Committee objects to payment of these amounts unless and until the Debtors demonstrate that such payments constitute necessary postpetition obligations of the estate.

4. Without further elaboration, the Budget includes a line item for “Contingency and Other” expenses in the amount of \$75,000 per week. The Committee objects to those payments without further detail and justification being first shown.

5. Finally, no provision exists in the Budget for payment of fees of the estates’ professionals, or other chapter 11 administrative expenses (such as U.S. Trustee fees). There also does not appear to be any agreement among the Debtors and their secured creditor FBCC concerning the payment of such amounts. To the extent the “Contingency and Other” expenses referenced above include estate professional fees, the Budget and any order granting the Motion should make that fact clear, and should also provide for sufficient funds to be segregated for the payment of such estate expenses. To the extent the “Contingency and Other” expenses do not include estate professional fees, any order granting the Motion should explicitly provide for authority to pay such amounts, and a reserve to be set up to cover them. As set forth in the Motion, FBCC enjoys an equity cushion of 40% based solely on its real estate collateral. *See* Motion at ¶ 16. In a case involving nearly \$5 million in nonpriority unsecured claims (*see* Schedules, Dkt. No. 152, at Schedule F), it is necessary and appropriate for the Debtors to have sufficient funds available to pay their own counsel, Committee counsel, and likely other professionals (such as brokers, accountants, and potentially specialized legal counsel) who may need to be hired for the benefit of the estates.

DATED: June 5, 2018

LEONARD LAW GROUP LLC

By: /s/ Timothy A. Solomon
Timothy A. Solomon, OSB 072573
Proposed Counsel for Committee

³ *See* version of Budget attached to Motion.

CERTIFICATE OF SERVICE

I certify that on the undersigned date, I caused this **LIMITED OBJECTION TO JOINT FIRST AMENDED MOTION FOR FINAL ORDER AUTHORIZING USE OF CASH COLLATERAL OF DEBTORS-IN- POSSESSION AND GRANTING ADEQUATE PROTECTION** to be served on interested parties requesting notice through the Court's CM/ECF system, as well as by first class U.S. mail on the following parties requiring special notice:

Electric Inc.
c/o Christopher C. Winston,
President
PO Box 820386
Vancouver, WA 98682

Ernest Packaging Solutions
c/o Jennifer Delgadillo
Director of Corp. Credit
5777 Smith Way St
Commerce, CA 90040

High Desert Milk
c/o Steven Tarbet CFO
1033 Idaho Avenue
Burley, ID 83318

Sorrento Lactalis, Inc.
c/o Phillips Lytle LLP
Attn: Angela Z. Miller
125 Main Street
Buffalo, NY 14203

Stiebrs Farms Inc.
c/o Janis E. Stiebrs, President
PO Box 598
Yelm, WA 98597

Valley Falls Farm, LLC
c/o Bryan P. Coluccio
Keystone-Pacific, LLC
18555 SW Teton Ave
Tualatin, OR 97062

DATED: June 5, 2018.

By: /s/ Timothy A. Solomon
Timothy A. Solomon, OSB 072573